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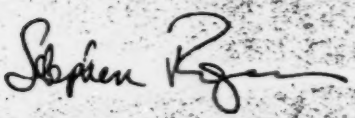
British Columbia Petroleum Corporation

Letter of Transmittal

To His Honour the Honourable
Robert G. Rogers
Lieutenant-Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

I have the pleasure to submit the Annual Report of the British Columbia Petroleum Corporation for the year ended March 31, 1984.



Stephen Rogers,
Minister of Energy, Mines and
Petroleum Resources,
Province of British Columbia

The Corporation

The British Columbia Petroleum Corporation was established on November 8, 1973, as an agency of the Crown, under the Petroleum Corporation Act. The primary function of the Corporation is to market the natural gas produced in British Columbia by purchasing gas from producers and selling it to Westcoast Transmission Company Limited, under an agreement dated November 13, 1973.

Under this agreement, Westcoast Transmission Company Limited novated all its British Columbia gas purchase contracts to the Corporation while retaining the functions of gathering, processing and transporting the gas and selling it to the various domestic utilities and to its U.S. customer, Northwest Pipeline Corporation. Westcoast retains from the proceeds of gas sales its cost of service, including a return on its rate base, and remits the balance of the proceeds to the Corporation, which in turn deducts the payment to the producers and its administrative costs, and remits the net amount to the Provincial Treasury. Under this arrangement, producers are not required to pay royalties or the costs of processing and transporting gas.

Since the Corporation negotiates directly with producers for the purchase of gas, it ensures the development of British Columbia's natural gas resources in a manner consistent with provincial government policy. The Corporation is the owner of all sulphur and natural gas liquids extracted during the processing of raw gas and is also responsible for selling these by-products.

Report of the Directors

The year under review was one of progress both for the Corporation and the natural gas industry in British Columbia. Gas sales increased by 12% to 6,441 from 5,745 million cubic metres, resulting in higher revenues to the Corporation and the producers.

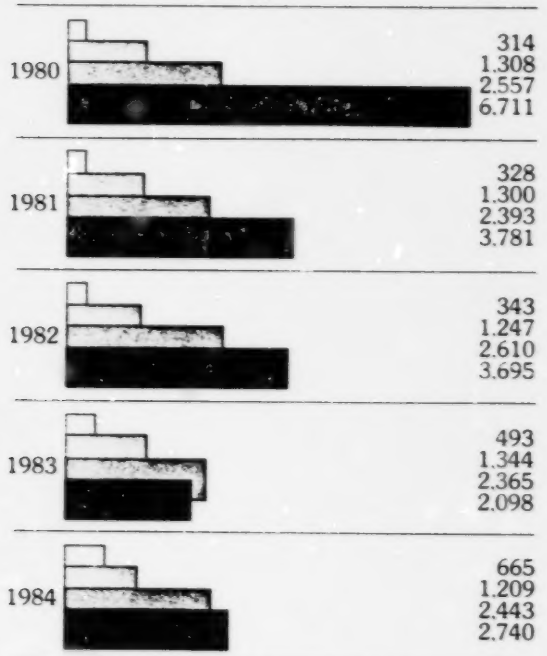
A higher export demand, reflecting an improvement in the United States economy, and a winter colder than normal, combined to effect this recovery. Northwest Pipeline Corporation, the only U.S. customer of B.C. gas, increased its purchases to 2,039 from 1,458 million cubic metres. Despite this increase, Northwest Pipeline Corporation did not reach the qualifying level for sales under the Volume Related Incentive Pricing scheme. In fact, deliveries to Northwest Pipeline Corporation represented only 34% of the licensed volumes, substantially below the average for all Canadian export licenses.

Sales to British Columbia domestic distributors increased by 3% to 4,403 from 4,287 million cubic metres. However, individual distributor demand throughout the Province was uneven. Pacific Northern Gas achieved an increase of 35% in sales reflecting the first full year of operation of the Ocelot Investments Limited methanol plant at Kitimat. B.C. Hydro showed a gain of 3% but Inland Natural Gas, with its reliance on industrial sales to the pulp and paper industry, was affected by the ten-week shutdown of that industry and recorded a decrease of 10%.

The main improvement in gas sales for the year occurred in the fourth quarter but since deficiency volumes are calculated on a calendar year basis, this improvement failed to relieve the Corporation from incurring additional deficiency gas. As at December 31, 1983, the amount of such gas which the Corporation has been obliged to purchase totalled 2,086 million cubic metres. In addition, there remains 675 million cubic metres of 1980 deficiency volumes which the Corporation is committed to take by 1991 at the price then prevailing. The Corporation has proposed, for the 1984 contract year, certain contract amendments to its producers to alleviate the increasingly serious burden of

deficiency volumes. It is a pleasure to report that the majority of producers have agreed with these amendments.

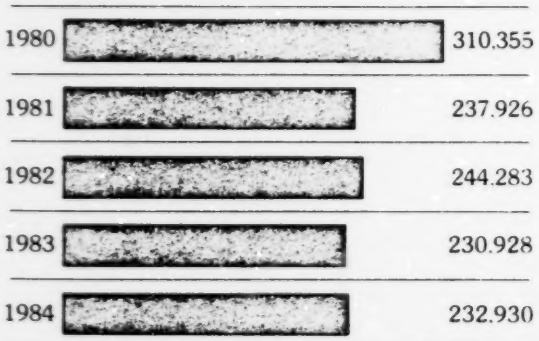
Natural Gas Sales
(in millions of cubic metres)



In September, 1983, the Government of British Columbia released "A Report on the Marketing of British Columbia Natural Gas" which was prepared by a study group under the chairmanship of Dr. George Govier. At the same time, the Government also issued its

decisions and comments on the report's recommendations. The government's announcement was the first step in the restructuring of the natural gas industry in the province and included, among its more important decisions, the adoption of an explicit royalty system, and the linking of domestic wholesale prices with the refinery gate price of oil at Vancouver. A further decision announced in February, 1984 declared petrochemical manufacturers to be "eligible buyers." This has the effect of allowing such buyers the opportunity of contracting gas supplies directly with producers at freely-negotiated prices. The first to benefit from this decision were Ocelot Investments Ltd. and Cominco Ltd. Certain decisions remain to be taken by the Government, including the future role of the Corporation in the marketing of natural gas. Regardless of the final resolution, significant changes will be required to the contractual arrangements under which the Corporation buys gas. The concept of an explicit royalty system will be incorporated in contracts and the Corporation will administer the export flow back revenue to producers.

PROVINCE OF BRITISH COLUMBIA
Natural Gas Liquids Sales
(cubic metres)



Revenues from the sale of byproducts recorded a satisfactory increase for the year. Although prices for sulphur remained under pressure for most of the year, higher sales

volumes resulted in increased revenues. Sales volumes of natural gas liquids were at the same levels as in the previous year but higher prices contributed to increased revenues.

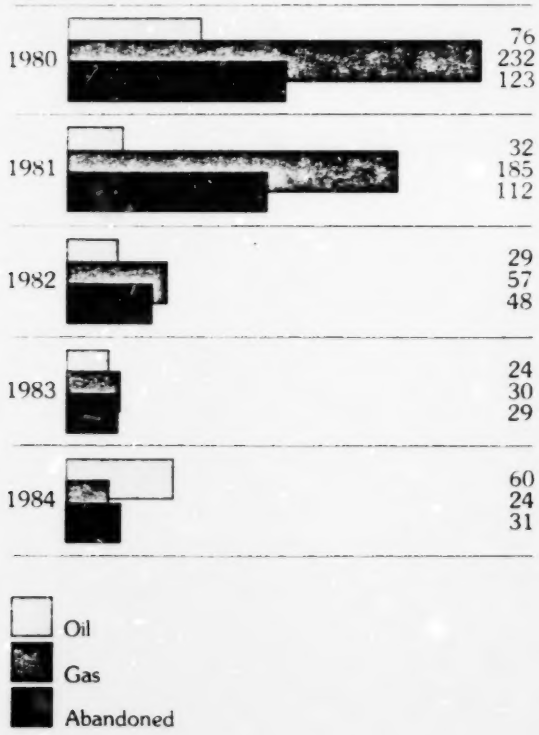
A substantial recovery in the natural gas industry in British Columbia depends, in the short term, on the demand for gas in the U.S. Pacific Northwest. Although a surplus of domestic deliverability still exists in the United States, many voices are expressing the view that the surplus will be short-lived and, as the economy of the U.S. recovers and the demand for energy increases, the re-instatement of Canada to its former position as an important supplier of gas will not be long delayed.

PROVINCE OF BRITISH COLUMBIA

Wells Completed

(by classification)

YEARS ENDED MARCH 31

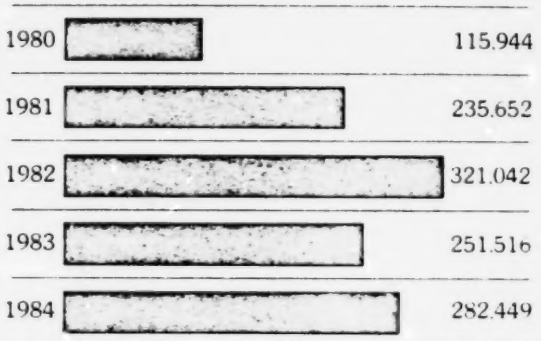


PROVINCE OF BRITISH COLUMBIA

Sulphur Sales

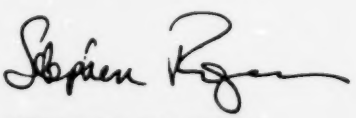
(tonnes shipped)

YEARS ENDED MARCH 31



In concluding, the Board would like to acknowledge the contribution made to the Corporation, and through it to the Province, of Mr. Leonard G. Mulholland who retired during the year after seven years of service as Vice Chairman. In October, 1983, we were fortunate to be able to add to the Board Mr. Philip D. Graham, a businessman of international experience, who will serve as the Corporation's Vice Chairman.

The Board of Directors wishes to thank the Corporation's staff for their contribution and dedication throughout this past year.



STEPHEN ROGERS
Chairman

Natural Gas Prices

On August 1, 1983, the Provincial Government increased the prices for natural gas paid to producers in British Columbia by $7.2676 per thousand cubic metres for old gas and by $0.6922 per thousand cubic metres for new gas.

The prices paid to producers are based on a formula which was first introduced in 1977. Minor revisions have been made since that date. Under this formula, the Corporation pays producers a base price of $52.9500 per thousand cubic metres for old gas and $58.4873 per thousand cubic metres for new gas, plus 48% of the difference between the actual deemed value in a month (as calculated under Section 69 (8) of the Income Tax Act) and $88.2500, plus a rebate of $7.6137 and $7.9598 per thousand cubic metres for old and new gas respectively. The formula is reproduced below:

Old Gas = $52.9500 + 48% (deemed value − $88.2500) − $7.6137

New Gas = $58.4873 + 48% (deemed value − $88.2500) − $7.9598

In general, gas produced from pools which flowed prior to November 14, 1973, qualifies as "old" gas, and gas produced from pools flowing after that date qualifies as "new" gas.

The monthly deemed value of gas purchased by the Corporation and the prices paid for old and new gas during the year are shown below:

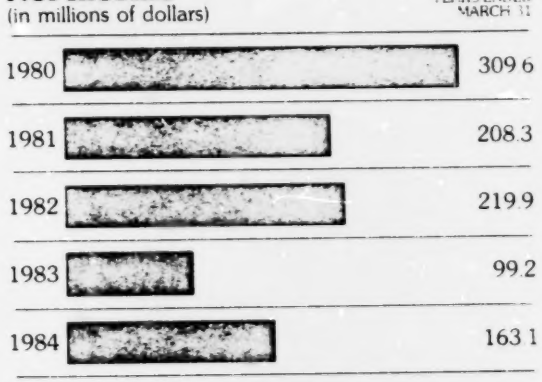
	DEEMED VALUE	PRICE PAID FOR OLD GAS	PRICE PAID FOR NEW GAS
1983	$/10³m³	$/10³m³	$/10³m³
April	48.2343	34.0886	46.5474
May	40.0213	30.1463	42.6051
June	33.9990	27.2556	39.7144
July	47.6635	33.8146	46.2734
August	66.4534	50.1013	55.9847
September	90.5846	61.6843	67.5677
October	89.6976	61.2585	67.1419
November	96.2293	64.3938	70.2772
December	100.3957	66.3936	72.2770
1984			
January	113.0811	72.4826	78.3660
February	103.7418	67.9998	73.8832
March	83.6453	58.3534	64.2368

Financial Review

The Corporation's net income for the year amounted to $163,056,775 which reflected a 64.3% increase over the corresponding net income of $99,223,060 for the previous year.

The main reason for the increase in net income was the higher level of export sales. In the year ended March 31, 1984, the sales of British Columbia gas amounted to 2,039 million cubic metres compared to 1,458 million cubic metres a year earlier. The volume of gas exported increased to 31.6% of the Corporation's total sales compared with 25.4% in the prior year.

Net Income
(in millions of dollars)



In April and May, 1983, the National Energy Board conducted a hearing in respect of a tolls application by Westcoast Transmission Company Limited. Following the hearing, the National Energy Board, by its Decision dated August, 1983, directed Westcoast to change from the normalized to the flow-through method of accounting for income taxes and to make certain other adjustments in the calculation of its cost of service. Primarily as a result of this decision, the consolidated cost of service declined to $254,785,075 from $269,124,243 a year earlier.

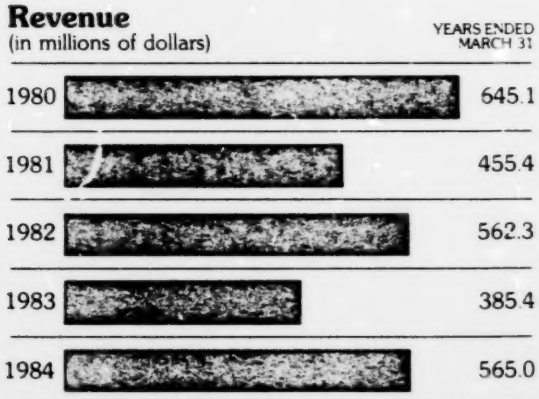
Despite the increased sales volume, the Corporation was unable to take delivery of its minimum annual volume of gas as required

under its contracts with the gas producers in the province. The Corporation's liability for 1983 amounted to 617 million cubic metres. This additional shortfall amounted to $33,701,100 which increased the Corporation's accumulated deficiency gas to $105,818,083 at March 31, 1984.

The fiscal year ended March 31, 1984 represented the first full year of gas sales by British Columbia Gas Corporation, a subsidiary company of the Petroleum Corporation, to Ocelot Investments Ltd. for use in that company's methanol plant at Kitimat, B.C. In view of the difficulties experienced by Ocelot resulting from the current international oversupply of methanol and the related low prices, the Corporation and its subsidiary company negotiated an agreement during the year, to assist Ocelot by extending credit up to a maximum of $45,000,000. At March 31, 1984, the amount outstanding under this arrangement was $32,454,594, which is secured by a first fixed and floating charge on the assets of Ocelot and is repayable in equal instalments over 18 years commencing on May 1, 1986.

The net income of British Columbia Gas Corporation in the year was $1,981,387 compared with $4,457,474 in the previous fiscal year.

Revenue
(in millions of dollars)



Auditors' Report

To the Lieutenant-Governor in Council, Province of British Columbia:

We have examined the consolidated balance sheet of British Columbia Petroleum Corporation as at March 31, 1984 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of British Columbia Petroleum Corporation as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wolrige, Mahon + Company

Wolrige, Mahon & Company,
Chartered Accountants
900 West Hastings Street,
Vancouver, B.C. V6C 1W4
May 15, 1984

Consolidated Balance Sheet
March 31, 1984

	1984	1983
ASSETS		
Current assets		
Cash	**$ 26,339,185**	$ 32,670,810
Accounts receivable	**52,862,808**	36,978,022
Prepaid expenses	**65,133**	3,799
	79,267,126	69,652,631
Prepaid gas (Note 2)	**105,818,083**	65,532,757
Property account (Note 3)	**213,155**	256,481
Other Assets		
Deferred receivable (Note 4)	**32,454,594**	—
Debt issue expenses	**169,680**	212,135
Mortgages	**77,272**	87,371
	32,701,546	299,506
	$217,999,910	$135,741,375
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable and accrued charges	**$ 70,866,948**	$ 27,672,705
Liability for future gas supply (Note 5)	**34,241,135**	14,533,618
Long term debt (Note 6)	**30,000,000**	30,000,000
Retained earnings	**82,891,827**	63,535,052
	$217,999,910	$135,741,375

Commitments (Note 9)

Approved by the Directors:

Director

Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income and Retained Earnings

Year ended March 31, 1984

	1984	1983
Revenue		
Sales from natural gas, natural gas liquids and sulphur	**$564,961,030**	$385,393,189
Expenses		
Gas and by-product purchases	**402,258,139**	287,128,809
Administrative and general expenses	**1,707,949**	1,474,423
	403,966,088	288,603,232
Operating income before interest	**160,994,942**	96,789,957
Interest (Note 7)	**2,061,833**	2,433,103
Net income	**163,056,775**	99,223,060
Retained earnings at beginning of year		
As previously reported	**60,360,915**	56,901,204
Adjustment of prior year's net income (Note 8)	**3,174,137**	—
As restated	**63,535,052**	56,901,204
	226,591,827	156,124,264
Deduct: Transfers to Provincial Treasury	**143,700,000**	92,589,212
Retained earnings at end of year	**$ 82,891,827**	$ 63,535,052

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended March 31, 1984

	1984	1983
Source of funds		
Operations		
Net income	**$163,056,775**	$ 99,223,060
Add items not involving outlay of funds:		
Depreciation and amortization	**108,455**	59,316
Gain on disposal of fixed assets	**(6,224)**	—
	163,159,006	99,282,376
Proceeds from disposal of fixed assets	**7,000**	—
Mortgages and other deferred charges	**10,099**	40,473
Long-term debt (net)	**—**	29,787,865
Payment on future gas supply	**19,707,517**	9,175,103
	182,883,622	138,285,817
Application of funds		
Prepaid gas	**40,285,326**	30,898,569
Property additions	**23,450**	27,729
Transfers to Provincial Treasury	**143,700,000**	92,589,212
Deferred receivable	**32,454,594**	—
	216,463,370	123,515,510
Increase (decrease) in working capital	**(33,579,748)**	14,770,307
Working capital at beginning of year	**41,979,926**	27,209,619
Working capital at end of year	**$ 8,400,178**	$ 41,979,926

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

March 31, 1984

Note 1 Summary of Significant Accounting Policies

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiary, British Columbia Gas Corporation.

GAS SALES

Under the terms of an agreement between Westcoast Transmission Company Limited and British Columbia Petroleum Corporation effective November 1, 1973, the Corporation sells natural gas to Westcoast Transmission Company Limited at a price equal to the gross revenue received by that Company on the resale thereof less the total cost of service of that Company's utility system operation.

DEPRECIATION

Furniture, equipment, automobiles and leasehold improvements are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the service lives of the assets. Depreciation is computed on a straight-line basis.

Note 2 Prepaid Gas

Under its gas purchase contracts with producers, the Corporation is obligated to purchase and take delivery of, or pay for, a specified minimum annual volume of gas. In the 1983 contract year, the Corporation was unable to take delivery of the minimum volume of gas and, therefore, is liable to pay for the resulting shortfall (deficiency gas). The Corporation is entitled to take delivery of deficiency gas within a period of ten years from the date incurred, with an adjustment for the prices prevailing when such gas is delivered. The Corporation's deficiency gas for 1983 amounted to $33,701,100 which increased the Corporation's accumulated deficiency gas to $105,818,083 at March 31, 1984.

Note 3 Property Account

	Cost	Accumulated Depreciation & Amortization	1984 Net Book Value	1983 Net Book Value
Furniture	$234,106	$134,292	$ 99,814	$135,636
Automobiles	39,261	13,345	25,916	12,300
Leasehold improvements	211,309	123,884	87,425	108,545
	$484,676	$271,521	$213,155	$256,481

Note 4 Deferred Receivable

The deferred receivable of $32,454,594 represents the amount of credit extended to Ocelot Investments Ltd. as at March 31, 1984 under an agreement whereby the Corporation and its subsidiary, British Columbia Gas Corporation, have agreed to extend Ocelot Investments Ltd. credit up to a maximum of $45,000,000. Repayment of this receivable, which is secured by a first fixed and floating charge on the assets of that company, will commence on May 1, 1986 and is repayable over 18 years with interest at three quarters of one percent over prime.

Note 5 Liability for Future Gas Supply

Liability for future gas supply represents payments for deficiency gas incurred by a distributor in 1981, 1982 and 1983. Such deficiency gas volumes may be recovered from the Corporation within five years from the date incurred without further payment.

Note 6 Long-Term Debt

Long-term debt comprises $30,000,000 11¾% Notes, due in 1988, which are unconditionally guaranteed as to principle and interest by the Province of British Columbia.

Note 7 Interest

	1984	1983
Interest Income		
Province of British Columbia	$4,147,445	$2,291,148
Other	1,369,343	141,955
	5,516,788	2,433,103
Less: Interest expense	3,412,500	—
Amortization of debt issue expenses	42,455	—
	3,454,955	—
	$2,061,833	$2,433,103

Note 8 Prior Period Adjustment

On December 1, 1982, Westcoast Transmission Company Limited applied to the National Energy Board for certain orders respecting its tolls pursuant to the National Energy Board Act. On December 20, 1982, the Board ordered that Westcoast's tariff and method of regulation would become, effective January 1, 1983, an interim tariff and interim method of regulation until such time as the Board issued its final order. On August 4, 1983, the Board issued its order which reduced Westcoast's cost of service. As a result of this order, the balance of retained earnings at March 31, 1983, previously reported as $60,360,915 has been restated to show a retroactive increase in income of $3,174,137 representing the reduction in the cost of service in the period January 1 to March 31, 1983. The comparative figures for the year ended March 31, 1983 have been restated where applicable.

Note 9 Commitments

(1) Under agreements with producers which waive the Corporation's liability to pay for deficiency gas incurred in 1980, the Corporation is committed to purchase and take delivery of, or pay for, a specified volume of such gas in each year to 1991. At March 31, 1984, the Corporation's aggregate liability under these agreements was estimated at approximately $26,734,000.

(2) The Corporation has commitments under agreements for the lease of office premises extending to 1989. The aggregate rentals payable under leases amounted to approximately $1,153,000 at March 31, 1984.

Five-Year Summary

YEAR ENDED MARCH 31	1984	1983	1982	1981	1980
Volumes					
Domestic sales — (10^3m^3)	**4,403,010**	4,287,164	4,283,565	4,093,999	4,252,966
— (Mcf)	**155,430,488**	151,341,010	151,213,971	144,522,117	150,133,790
Export sales — (10^3m^3)	**2,038,496**	1,458,000	2,464,017	2,411,307	4,746,046
— (Mcf)	**71,960,884**	51,468,793	86,982,174	85,121,456	167,539,986
Sulphur sales — tonnes shipped	**282,449**	251,516	321,042	235,652	115,944
Natural gas liquids — (m^3)	**232,930**	230,928	244,283	237,926	310,355
Average Selling Price of Gas					
Domestic — $ per 10^3m^3	**81.4546**	69.3503	58.1420	41.4221	41.1892
— $ per Mcf	**2.3074**	1.9645	1.6470	1.1734	1.1668
Export — $ per 10^3m^3	**198.6800**	221.2415	215.8722	195.1684	128.5379
— $ per Mcf	**5.6282**	6.2673	6.1152	5.5287	3.6412
Average Purchase Price of Gas					
Old gas — $ per 10^3m^3	**57.2490**	42.0536	45.1660	32.4350	32.1334
— $ per Mcf	**1.6542**	1.2151	1.3051	0.9372	0.9285
New gas — $ per 10^3m^3	**64.9556**	53.8178	56.8414	40.6557	40.9307
— $ per Mcf	**1.8769**	1.5551	1.6424	1.1748	1.1827
Financial Statistics *(thousands of dollars)*					
Revenue:					
Gas and by-product sales	**$564,961**	$385,393	$562,270	$455,380	$645,104
Expenses:					
Gas and by-product purchases	**402,258**	287,129	349,149	247,168	335,920
Administrative and general expenses	**1,708**	1,474	1,427	1,542	1,100
	403,966	288,603	350,576	248,710	337,020
Operating income before interest	**160,995**	96,790	211,694	206,670	308,084
Interest	**2,062**	2,433	8,228	1,656	1,560
NET INCOME	**$163,057**	$ 99,223	$219,922	$208,326	$309,644

Corporate Information

Directors

Honourable Stephen Rogers
Minister of Energy, Mines & Petroleum Resources
Chairman of the Board

Philip D. Graham
President and Chief Executive Officer, Graymont Limited
Vice Chairman of the Board

Honourable Patrick L. McGeer
Minister of Universities, Science & Communications

Donald W. Rawlyk

Senior Personnel:

Donald W. Rawlyk
General Manager & Manager, Natural Gas Division

Sidney T. Akers
Manager, Gas Supply & Special Projects

Gordon S. Thomas, *Comptroller*

Bruna M. Martinuzzi, *Corporate Secretary*

Leonard D. Anderson, *Chief Geologist*

J. Brian Williston, *Chief Engineer*

Neil C. Beaton, *Contracts Administrator*

Gordon A. Pearson, *Assistant Comptroller*

Corporate Offices:

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Vancouver, B.C. V6E 3T5
Telephone (604) 685-0411 Telex 04-54530

Legal Advisors:

Davis & Company
1030 West Georgia Street
Vancouver, B.C. V6E 3C2

Auditors:

Wolrige, Mahon & Company
900 West Hastings Street
Vancouver, B.C. V6C 1W4